UNITED STATES DEPARTMENT OF AGRICULTURE
Farm Service Agency
100 USDA, Suite 102
Stillwater, Oklahoma 74074-2653

OK Notice FLP-402

For: County Offices

Bank of Kremlin
Tax ID # 73-0138530
Preferred Lender Program Status

Approved by: State Executive Director

Jim Reese

1 OVERVIEW

A Background	2-FLP governs the processing and servicing of guaranteed loans. The Preferred Lender Program (PLP) allows lenders to originate and service guaranteed loans as they do their non-guaranteed loans.
B Purpose	The purpose of this notice is to: • Advise County Offices that the Bank of Kremlin Credit Management System (CMS), has been updated and revised. • Provide guidance and direction to staff to ensure continuous service to the Lender.
C Contact	Direct any questions concerning this notice to Patty Wanger at (405) 742-1052 in the State Office.
D Filing Instructions	This notice should be filed with the FLP series Notices.

Disposal Date	**Distribution**
August 4, 2005	Farm Loan ProgramTeams, County Offices, DD's, COR's

2 ACTION

A
County Office Action

Attached is a copy of the revised Bank of Kremlin PLP Credit Management System (CMS). This replaces the CMS that is attached to the bank's master August 4, 2000, Lender's Agreement (**maintain and do not destroy**) on file.

The PLP Status remains in effect for the same 5-year period, August 4, 2000, to August 4, 2005.

PLP lenders will use their own CMS for originating and servicing FLP-guaranteed loans. Any action not addressed in the CMS will then be in accordance with 2-FLP as a CLP lender.

The County Office shall develop and maintain an operational file on each lender. This file will contain the information outlined in 2-FLP Par. 48 B, Operational File.

B
Loan Making

All PLP guaranteed loan applications should be filed with the Farm Loan Manager servicing the county, which has been designated as the centralized PLP application-processing county.

Under Par. 83 B, PLP applications must be approved or rejected and the lender also notified of the decision within 14 calendar days of the complete application.

C
Loan Servicing

All PLP guaranteed loans, once closed, shall be sent to the Farm Loan Manager servicing the county where the borrower's principal residence on the farm is located. If the borrower's residence is not located on the farm or the borrower is an entity, the loan will be serviced in the county where the farm or major portion of the farm is located, unless otherwise approved by the State Office.

If not covered under the CMS, Bank of Kremlin must follow the servicing requirements for CLP lenders found in 2-FLP Handbook.

All loan servicing actions on existing guaranteed loans will be based on the current CMS in effect, regardless if the loan was approved under a previous CMS revision.

D

PLP Designated Loan Officers

Following is a complete list of persons designated to originate and service PLP loans for Bank of Kremlin:

Todd Welch, Vice President

E

CMS Interpretation

Contact the Guaranteed FLP Section at the State Office for any assistance and/or guidance in regards to the interpretation of the Bank of Kremlin PLP Lender's Agreement/Credit Management System (CMS).

USDA

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

1400 Independence
Avenue, SW
Stop 0523
Washington, DC
20250-0523

APR 9 2003

Mr. Todd Welch
Vice President
Bank of Kremlin
Post Office Box 197
Kremlin, Oklahoma 73753

RECEIVED
APR
FSA Office

Dear Mr. Welch:

Over the past 12 months, the Farm Loan Programs staff has been reviewing all Credit Management System (CMS) summaries for Preferred Lenders. During the reviews, we identified loan servicing issues that were not specifically addressed in your initial CMS summary and suggested revisions to address these areas of concern. We received your concurrence and acceptance dated March 20, 2003.

Enclosed you will find the modified CMS summary to use as your most current working document when processing and servicing guaranteed loans. Thank you for your continued interest and participation in the Farm Service Agency's Guaranteed Loan Program.

If you should have any questions, please contact Larry Purnell, Loan Servicing and Property Management Division, Guaranteed Loan Servicing and Inventory Property Branch, at (202) 720-4938.

Sincerely,

ARTHUR V. HALL

Carolyn B. Cooksie
Deputy Administrator for
Farm Loan Programs

Enclosure

PREFERRED LENDER PROGRAM
CREDIT MANAGEMENT SYSTEM SUMMARY
ATTACHMENT TO FORM FSA-1980-38, "LENDER'S AGREEMENT"

Bank of Kremlin
Kremlin, Oklahoma

This attachment contains the credit management system requirements agreed to by Bank of Kremlin (Lender) in Kremlin, Oklahoma. The following information summarizes the credit management system requirements provided in the Lender's May 15, 2000, request for preferred lender status, with attachments and exhibits. Requirements for loan administration, servicing and reporting activities not specifically addressed in this attachment are governed by the attached Form FSA-1980-38, "Lender's Agreement," and 7 CFR 762.

I. GENERAL OPERATIONS

A. Normal Trade Area.

The normal trade area for Bank of Kremlin is Northwestern Oklahoma, Southeastern Colorado, Southwestern Kansas and portions of the Texas Panhandle. Texas counties include Dallam, Hartley, Oldham, Sherman, Moore, Potter, Hansford, Hutchinson, Carson, Ochiltree, Roberts, Gray, Lipscomb, Hemphill, and Wheeler. Colorado counties include Kiowa, Bent, Powers, and Baca. Kansas counties include Sumner, Harper, Barber, Comanche, Clark, Meade, Seward, Stevens, and Morton. PLP status will cover all Oklahoma counties and the above listed portions of Texas, Colorado, and Kansas.

Loans would be considered outside the normal loan area if loan servicing were limited. For example, integrated broiler or pork contractors where the production check is sent to the Lender could be considered. Livestock and chattel loans that are not cross-pledged with real estate are not desirable outside the trade area due to extensive servicing demands.

The primary commodities in the Lender's area are wheat, beef cattle, and row crops.

B. Officers' Lending Authority.

The Senior Vice President of Agriculture Lending has the authority to approve loans meeting all credit standards up to $25,000. The Vice President of Agriculture Lending has the authority to approve loans meeting all credit standards up to $25,000. Loans requiring an exception to credit policy and loans in excess of $25,000 are presented and approved by a two (2) member loan officer committee.

To assure no actual or potential conflicts of interest exist, loan approvals and major servicing actions involving bank employees (including directors) or their close relatives will be approved by the loan officer committee with concurrence from the Board of Director. Quarterly, the quality control group will review all insider loans for violation of conflict of interest regulations.

C. Policy Exceptions.

Loans are expected to meet all of the Lender's established standard credit factors. Loans not meeting all of these standards may be considered on a case-by-case basis. If a credit standard is not met, the application must exhibit offsetting strong credit factors to be considered. Deviations from standards will be fully justified and approved by the loan officer committee. Ag loans not meeting credit standards of loan policy will normally require an FSA guarantee. If a guarantee is requested, the exception and offsetting strengths will be clearly identified and the decisions justified in the narrative submitted to FSA.

D. Interest Rates, Loan Terms and Fees.

The Lender will not charge its guaranteed loan customers interest rates which exceed those charged to the Lender's average farm loan customer. As a rule, interest rates are established at an annual rate of interest of Bank of Kremlin Prime rate, which is normally 2% to 3% over New York Prime. Adjustments may be made to rates based on several factors that include cash flow, equity in the collateral, and pricing from competitors. Interest rates are variable with no maximum or minimum.

Repayment terms are based on the type of agriculture entity involved and the cash flow stream. Payments are structured to be collected either annually, semi annually, or monthly. Loan terms will be dependant upon collateral type and the expected economic life of the collateral securing the loan. Lines of credit will be extended for up to 5 years and scheduled to be repaid as the income from the farm production is received. New and used equipment and breeding livestock loans will be scheduled to be repaid in no more than 7 years. Loans secured by real estate may be amortized for up to 30 years.

Fees charged to guaranteed customers will not exceed those charged to nonguaranteed customers for similar transactions. The Lender does not charge fees for originating or packaging agricultural loans. Fees will be charged for appraisals and credit reports. Any fee paid to a government guarantee agency is passed on to the borrower.

E. Internal Credit Review System.

Bank of Kremlin has an ongoing internal FSA Guaranteed Loan review program conducted by Adams and Associates. This group serves as an independent, objective, active means for monitoring adherence to Lender policies and procedures, as well as assessing the accuracy of the credit and performance classifications and identifying credit administration weaknesses. The quality control group will review a significant number of loan and servicing actions, based upon a sampling of those areas that present the greatest risk to the Lender. A minimum of 50 percent of outstanding guaranteed loans will be reviewed annually.

The quality control group will provide the Board and senior management a semi-annual report of key review results, including credit quality and credit administration deficiencies and adherence to policies and procedures. The group will also review the results of the individual loan reviews with the loan officers, who will be responsible for resolving any deficiencies in their portfolio.

The loan officers will report monthly to the loan officer's committee on the status of corrective actions on identified deficiencies.

Bank of Kremlin is a subsidiary of Kremlin BancShares, Inc. The holding company employs independent internal auditors who regularly review subsidiary loans for compliance and proper credit administration. Deficiencies are printed out on a monthly basis and each loan officer is expected to resolve any deficiency pertaining to his portfolio in a timely manner.

F. Use of Agents, Consultants and Packagers.

Bank of Kremlin has used agents or packagers for FSA guaranteed loans and plans to use this type of assistance in the future. The packagers currently used are Adams and Associates, Tom Eke, and Farm Data. Loan requests are originated and packaged by the Lender and packager. Unsolicited loan proposals presented by other private consultants may be considered; however, the application will be prepared by a loan packager then analyzed and presented by a bank loan officer.

One year from the time PLP status is granted, the Lender's use of packagers for guaranteed loans will be evaluated to determine whether continued use is justified. If the Lender determines that loan packagers are requisite to the success of its guaranteed loan portfolio, the Lender will share with FSA justification for continued use.

G. Organizational Structure.

Bank of Kremlin is a wholly owned subsidiary of Kremlin Banc Shares Inc. The Bank of Kremlin is subject to credit examination and supervision by the Federal Deposit Insurance Corporation and the Federal Reserve.

H. Loan Officers' Qualifications.

Todd Welch, Vice President of Agriculture Lending, will be in charge of the guaranteed loan program. Mr. Welch has eight years experience in the field of agriculture lending and eight years experience in processing FSA Guaranteed loans. Mr. Welch's resume was submitted with the original PLP application and is being retained in the FSA National Office. If the Lender hires additional persons to administer FSA guaranteed loans, the Lender will ensure that these individuals have sufficient experience in agricultural lending and knowledge of the guaranteed loan program.

I. Monitoring Compliance with FSA Requirements.

All FSA guarantee loans are processed and reviewed in the Lender's headquarters office. The Agriculture Lending Department has one loan officer with primary responsibility for reviewing and servicing these loans. This loan officer is responsible for assuring that all FSA requirements, including reporting requirements, have been met. The quality control review group will also monitor compliance with FSA requirements and notify the loan officer and senior management of any deficiencies.

J. Investigation of Environmental Issues.

The Lender will work with the Oklahoma, Colorado, Texas and Kansas State FSA Offices to assure environmental policies and procedures are in compliance with FSA requirements. Certain types of operations are more likely to have environmental problems. Large livestock operations, those that use large amounts of pesticides and fertilizers, and those with underground storage tanks are higher than normal environmental risks and will be thoroughly evaluated.

Real estate appraisers approved by the Lender are required to disclose any environmental issues in their appraisals.

In all cases where real estate will be taken as primary security, the loan officer completes a pre-loan site visit. During this site visit, loan officers look for indications of environmental concerns, such as soil conditions in the area that might suggest contamination or the presence of underground storage tanks.

Before the loan is closed Adams and Associates will be hired to complete an on site survey. Adams and Associates will forward a Transaction Screen Questionnaire along with photos. If there are any notations to the report or deficiencies found, the loan officer typically consults with the Senior Management Officer to determine whether a further investigation is necessary.

If environmental issues do arise, FSA and the NRCS are notified. A site visit is arranged between all parties concerned and the problem is evaluated to determine whether to continue with the loan, subject to conditions, hire an environmental professional to conduct a Site Assessment, or deny the loan. The Senior Loan Officer maintains a list of approved environmental professionals.

K. Requesting a Guarantee.

Before submitting an application, the Lender will make a site inspection to assess the suitability of the farm and complete environmental due diligence, as appropriate.

When requesting a guarantee, the Lender will submit the following information to FSA:

1. A complete "Preferred Lender Application for Guarantee" (FSA-1980-28);
2. A complete loan narrative, discussing the "5 Cs of Credit" and including a description of the location of all farmed land;
3. If Interest Assistance is required, a completed Part G of "Application for Guarantee" (FSA-1980-25), projected cash flow, and current balance sheet; and
4. When the applicant is an entity, the names, social security numbers, and percent ownership for each entity member (entity information will be addressed in the loan narrative).

II. LOAN ANALYSIS/ UNDERWRITING

The Lender uses a Farm Equity Manager analysis system. This system is required for all agriculture borrowers with more than $100,000 credit with the Lender and for any ag credit with debt/asset ratio exceeding 50%.

The analysis for an application where a guarantee is requested will be substantially similar to the analysis performed for a similar unguaranteed loan application. If a loan exhibits weaknesses in a credit factor, the loan narrative shall clearly discuss how the weakness will be offset by other strengths and compensating factors. The loan narrative analysis will address all credit factors and conformance to standards. The depth of the narrative will be such that a reasonable person, knowledgeable and experienced in the extension of credit, would understand the loan and conclude that the credit risk had been sufficiently analyzed.

A sample Credit Presentation, Pro Forma Cash Flow Budget, Balance Sheet Trend with schedules and an Income Trend were submitted with the Lender's original PLP application and are being retained in the FSA National Office. The Credit Presentation included a narrative addressing the credit factors.

A. Management Ability/Credit History Analysis.

The applicant's management ability, character and credit history are significant parts of the credit decision. A thorough evaluation is especially critical when the Lender is considering extending credit to a new customer. A field visit will be conducted by the loan officer to evaluate the applicant's ability to manage the operation and to determine the suitability of the land and facilities to the loan request.

Required credit references. A credit report from TRW or another credit reporting bureau is included and maintained in the credit file for all new borrower applications and all loans that have any significant weakness. A credit report is required for any loan considered for an FSA guarantee. Debts in excess of $1000 not reflected on the credit report will be verified by phone or mail. A five (5) year UCC lien search in the applicant's county of residence is used to further verify debt and to confirm that all debts are accounted for. Businesses that a new customer works with, such as veterinarians and feed and fertilizer dealers, will be contacted for references regarding how the applicant farms and handles his financial business with them.

If credit history reflects a bankruptcy, charge off or repossession, or if there is a slow pay and the applicant has unforeseen circumstances, a letter of explanation will be requested, if not provided.

Young or beginning farmers. The extension of credit to young and beginning farmers is an appropriate use of loan funds. Loans to young and beginning farmers must meet the same underwriting standards as other applicants, and will be considered for an FSA guarantee.

Previous participation in government lending programs. If the applicant discloses previous participation in government lending programs, the Lender will call or write the agency involved and verify repayment performance. If FSA credit is involved, the Lender will verify the applicant's continued eligibility. The agency reference must indicate acceptable credit and borrower compliance with loan terms, or the loan request will br denied.

B. Capacity Analysis.

Determining repayment capacity. Capital Debt Repayment Capacity (CDRC) is the measurement of a borrower's ability to repay capital debt, based on an analysis of the operation's profitability. The applicant's ability to service the proposed debt plus existing debt and contingent liabilities is evaluated for all loans with use of a Pro forma cash flow budget. In addition, a modified cash flow analysis including accounting for crop carryover, prepaid expenses, and carryover debt will be conducted.

For loans exceeding $50,000, at least three (3) years of history of farm income, expenses and farm production are analyzed with adjustments pertaining to any changes in the operation. For new customers and loans exceeding $500,000, five (5) years of history will be analyzed. For loans of $50,000 or less, at least 2 years of financial information is recommended; however, an analysis of only one year's information is required.

Non farm income, if included in cash flow, is verified with employment verification or other sources as needed. Tax returns are utilized to obtain an average if income is other than employer. Other income, such as mineral production, is verified through income tax returns.

Adequate capacity is necessary to protect the Lender's interests. A minimum CDRC of 100% is acceptable, with offsetting strengths in other credit factors. While it is preferable that an average historical cash flow meet coverage ratio requirements, a pro forma cash flow is acceptable where deemed appropriate and adequately justified by the loan officer.

C. Capital Analysis.

Capital refers to the financial strength of the business as measured by solvency and liquidity. Asset quality, debt structure, and financial trends of the business will be based on accurate and verifiable historical and current balance sheets, together with income and expense statements of comparable dates.

Credit standard requires a minimum of 50% owner equity and a current ratio of 1:1. Loan requests with less than 50% equity are assessed based on cash flow and leverage position. Applicants must have or project sufficient working capital. Loan requests with less than 50% owner equity will be considered for an FSA guarantee. Even with strong cash flow and an FSA guarantee, a minimum of 20% owner equity is required to purchase real estate.

Supporting schedules. The financial statement on the loan request must be no more than thirty (30) days old for a new customer. For existing customers, a balance sheet up to ninety (90) days old may be acceptable. The financials must be supported by tax returns, sales receipts or any other data.

Entity consolidation process. When the applicant is an entity, the balance sheet of each liable party and the entity itself will be obtained. In addition, consolidation of financial information is required when a corporation or formal partnership entity applies for a loan. When income is derived from several sources then consolidation of the entities is required. All assets, debts and income are combined.

D. Collateral Analysis.

Collateral addresses quality of the asset, value, title and lien position, and relationship between the loan collateral value, stability, and marketability. The collateral is to provide protection from loss if the loan defaults.

Collateral credit standards are:

Crops	50% Loan to Value (L/V)
Feeder Livestock	80% L/V
Stockers	$100 equity per head
Equipment	80% L/V
Breeding Livestock	85% L/V
Real estate	65-85% L/V

Hard security will be taken for stocker and growing crop loans, when such security is available.

Loan applications that do not meet the Lender's minimum collateral standards will be carefully analyzed, and the decision based on the strength of the cash flow and other credit factors, and should be considered for an FSA guarantee. Even with an FSA guarantee, adequate collateral will be taken to protect the interests of the Lender and the Government. The loan officer will clearly disclose the exception to the standard and discuss mitigating strengths in other credit factors. This will be included in the narrative submitted to FSA.

Insurance. Insurance will be required when needed to protect the interests of the Lender. Crop insurance will be required whenever crops are security and the Loan/Value, computed excluding crops, is greater than 50%. Real property insurance will be required, with the Lender as beneficiary, when equity in the real property security is less than the value of the improvements on the property.

Appraisal guidelines. Appraisals will be obtained on all primary security and will be performed by a qualified appraiser. If an appraisal is performed by a bank employee, it will be someone other than the loan officer. An appraisal review process is performed by the Lender to check for deficiencies.

Crops will be valued at the lessor of cash input costs or market.

Equipment is itemized on a property list, and the appraised value is based on auction sales. Numerous auctions are attended by the appraiser to establish values. The Hot Line Equipment Guide is used for reference when applicable.

Cattle are valued from current auction values and the use of High Plains Journal. The Lender has access to the internet in the Agriculture Loan Department and uses it and futures markets to establish the value of agriculture products.

All real estate appraisals regardless of size will be USPAP compliant. Appraisals for all real estate loans of $250,000 or more are performed by State Certified General Appraisers. Loans of less than $250,000, will be performed by a qualified appraiser, whose work and experience has been reviewed and approved by the Lender. Appraisals must be current or no more than twelve (12) months old. Well-secured real estate loans less than $50,000 do not require an appraisal.

Verifying ownership of assets. The ownership of assets being pledged as collateral is verified by several means. Real estate ownership is verified by a title search. Chattel property is accomplished by visual inspection, bill of sale or a search of Uniform Commercial Code (UCC) filings. If doubt exists, the depreciation schedule of the applicant's income tax return will be reviewed. Documentation of the above verifications is entered into the file for record.

Verifications of prior liens. Prior liens are verified with the use of a five (5) year UCC lien search in the county of residence in addition to other counties where the applicant is doing business. If a lien is noted, the secured creditor is contacted to assess the lien. Occasionally, secured creditors are called to clarify discrepancies.

Requirements for perfecting liens. A mortgage is filed of record to perfect real estate liens. UCC-1 forms are filed to perfect liens on chattels. Prior to the above, a preliminary title opinion or title insurance binder is requested to insure filing proper position of real estate. After filings are completed, a final title opinion or title insurance is requested to verify first mortgage position on real estate. Preliminary and final UCC lien searches are implemented to verify a lien position on chattels.

When liens are taken on fixtures, they are filed with the same standards. UCC liens are always tied to the note and security agreement.

E. Conditions.

Loan conditions address loan purpose, loan amount, loan structure, pricing, scope of financing or requirements unique to a loan. These conditions need to balance credit risk with effective loan conditions and controls. Conditions are added as loan risk increases. The conditions of approval are based on the analysis of the credit factors to identify applicant creditworthiness and risk. Examples include additional monitoring, collateral, insurance, etc. to reduce the risk exposure of any particular loan.

Disbursement of loan proceeds. Each loan with multiple draws require a line of credit agreement perfected as part of the loan. The agreement specifies terms for draws from the line and no funds are dispersed without compliance. Each file has an advance ledger in place to document date, amount and use of proceeds. Enclosed for reference you will find a copy of a Line of Credit Agreement and Advance Ledger.

III. LOAN SERVICING / ADMINISTRATION SYSTEM

A. General Servicing.

Borrower monitoring and supervision. Borrowers will be monitored for financial performance to determine the level of risk to the Lender. The condition of agricultural loans will be reviewed on an annual basis.

Annual borrower review documentation will include the following:

- Updated appraisals of livestock and equipment (annual inspections for stocker or feeder livestock operations financed by revolving line).
- A current balance sheet for borrower, entity members and any personal guarantors.
- An analysis of current assets, crop condition, livestock conditions, prices and the likelihood of payment of operating credit and term debt obligations due in the current cycle.
- An income and expense statement, such as IRS Form 1040, Schedule C or F, Farm Equity Manager report, customer's computerized records or similar form.
- A comparison of projected to actual financial results and trends. A copy of a typical trend analysis was attached as an exhibit and is being retained in the FSA National Office.
- Cash flow projection.
- Review of capital purchase and consumer credit needs projected for next year.
- Assessment of farm and farmstead condition.

Monitoring security. Acquisition and lien priority of planned capital purchase or ownership of basic security will be verified. Methods for verification include physical inspection visit by loan officer, bill of sale, vehicle title, deed, lien search or another method as appropriate. Cattle will be marked for identification.

Proceeds from the sale of security will be applied to the debt according to lien priority. Where multiple loans are secured by a blanket lien on chattel security, crop and livestock income will be applied to the annual operating debt incurred to produce that item before being used to pay term debt installments.

The source of proceeds, including bushels, weights, and size will be verified with receipts in those cases where the borrower's records are not accurate. Income from sales in one cycle that is not received until the following cycle (e.g., overlap income, retains, dividends) will be applied to any outstanding debt associated with the production of that commodity.

Term debt collateral sales proceeds will not be used to make scheduled term debt installments.

Advances on lines of credit. Advance requests may be made by telephone, electronic mail or other methods. The request and its use will be acknowledged in writing on an Advance Record by the borrower during their next physical office visit, or by copy of a check written on the account where disbursements are deposited. Each year, the ability to meet all financial obligations will be documented with an annual cash flow projection before the operation is financed for another year.

Advances and payments will be made by a loan administration technician. Loan ledgers are updated daily for advances and payments. Ledgers do not track the use of funds or source of proceeds. Livestock operation lines of credit are also tracked using livestock inventory control records and inspection reports.

Emergency advances. An advance in excess of the loan amount may be made when an aberration causes expenses to exceed the original budgeted amount and the advance is necessary to avoid significant damage to or loss of the loan security. The reason for the advance and the financial benefit to be derived from it will be documented in the loan file.

Construction loans. Loans made for development will require that the Lender be provided with a copy of plans, specifications and construction contracts. Advances on construction loans will be made based on the level of completion after verification by loan officer visual inspection.

Partial releases. Security may be released without FSA concurrence when the security item is being sold for market value and the proceeds will be applied to the loan in accordance with lien priorities; when the security item will be used as a trade-in or source of down payment funds for a like-item that will be taken as security; or when the security item has no present or prospective value.

Cull and replacement policy. Breeding livestock sales proceeds will be treated as normal income when herd size and value is maintained at a level at or above that which existed at loan inception as verified by periodic inspection.

All other Releases without compensation will meet FSA regulatory requirements, and require loan committee approval. Details of the transaction will be documented in the credit file.

Releases of borrowers. Obligated parties, including entity members, personal guarantors, cosigners, or joint operators are not released from liability except when the debt has been paid or refinanced, or on a case-by-case basis, with executive loan committee concurrence, and FSA written approval.

Additional loans. The Lender may make consumer, residential and commercial loans to guaranteed loan customers as part of ongoing relationships. If unguaranteed loans are made, security will not be intermingled and payments will be applied to any guaranteed loan first.

Lender reporting. Loan status reports will be provided to FSA semi-annually, and default status reports will be provided 45 days after default and every 60 days thereafter until the loan is paid current.

B. Delinquencies.

Distressed loans. If the annual analysis or any information provided by the borrower indicates that the borrower will have difficulty meeting their obligations, servicing options to improve the customer's situation will be explored before actual default occurs.
Reminder notices. For annual payment borrowers, reminder notices are mailed 10 days prior to the installment due date. Reminder notices are not mailed for monthly or quarterly payment borrowers.

Default notices.

10 days past due: Delinquency notices are mailed and responsible loan officers are notified by the loan administration staff.

30 days past due:

- Written borrower default notification and request for payment is mailed.
- Loan officer contacts the borrower by telephone and a meeting is scheduled within 15 days. The borrower is requested to provide a balance sheet and a summary of their liquidity position. A short-term extension in the meeting date may be granted to allow the borrower to assemble the required information.
- A summary of attempts to schedule a meeting, reasons delays are granted, agreements reached and actions taken will be documented in the customer file.
- The loan officer presents a report on the prospective servicing plan to the executive loan committee.
- The loan officer notifies the secondary market holder, if applicable, of the Lender's intentions to repurchase or requests that the holder agree to a rescheduling.

45 days past due: Form FSA 1980-44 is submitted to FSA outlining results of meeting or attempts to schedule a meeting and planned collection activities.

60 days past due: If no meeting has been held, or if meeting results are inconclusive, a second default notification is mailed. In Colorado the borrower is offered the opportunity to participate in mediation. Mediation does not apply in the other States where Lender does business.

90 days past due: A plan for cure of the default will be in place unless an extension is granted. The reason for the extension (including pending mediation) will be documented in the customer file and initialed by the loan officer's first line supervisor.

120 days past due: Restructuring agreements will be consummated or extension justification will be documented.

Every 30 days:
- Loan officer reports to the executive loan committee.
- Borrower is contacted (by phone or in writing) if plan has not been completed.
- Notation is made in file as to status of default.

Every 60 days:
- Default status report updates are provided to FSA until default is cured.

Restructuring delinquent loans. If a defaulted borrower is unable to pay the account as agreed, he/she may request and present a plan for restructuring based on probable financial performance. Debt restructuring will be approved in lieu of liquidation when financially prudent and feasible. Options that the Lender will consider include:

90-day extension agreement. Up to a three month deferral (deferment, abeyance) may be approved by the loan officer with no payments when delinquency is caused by market conditions or timing of the production cycle.
Deferral. A six-month deferral may be approved by the loan officer after interest due is paid current. A six-month deferral requires amendment of the note. A subsequent six-month deferral or longer deferral within same operating cycle requires loan committee approval. Cash flow will indicate that repayment problems are only short term and regular repayment can be satisfied.
1-year workout. For distressed credits requiring workouts that are contrary to standard liquidation procedures and where no loss is expected due to documented excess security, borrowers may be allowed up to one year from the date of missed payment to secure refinancing or voluntarily liquidate. Documentation will verify that the action is taken to obtain maximum recovery of the collateral. The agreement will be in writing, interest will accrue, operating credit will not be provided, and a foreclosure complaint will be drafted as a contingency. For FSA guarantee loans, in the event of a loss at the conclusion of the workout period, interest is only guaranteed 90 days from the initiation of the agreement.
Uneven payments. Customers with documented short-term cash flow deficiencies may have loans restructured with uneven payments of at least an amount that will exceed interest accrual. A precise date for resumption of amortized principal installments will be established at the time of the action.
Rescheduling: Operating lines of credit may be rescheduled for up to 7 years, not to exceed 10 years from note origination. Advances will cease on rescheduled lines of credit. Intermediate term notes will typically be rescheduled based on the remaining life of the security not to exceed 15 years from the action. Real estate secured notes may be rescheduled for 25 years or less, up to 40 years from the original date of note.
Capitalization of accrued interest. Up to 12 months of delinquent interest may be capitalized as part of an action with written concurrence from the loan officer's supervisor. Capitalization of more than 12 months of past due accrual requires executive loan committee or Board approval based on the resulting size of the debt. The loan officer will provide FSA a copy of the new note, and other documents and request that FSA provide the Lender a modification of the guarantee to reflect the new guaranteed principal amount.

Default charges. In addition to note rate accrual, past due accounts are charged $10 per day or 6 percent per annum default charges. Charges may be waived if the loan is restructured. For FSA guaranteed loans, default charges are not covered by the guarantee.

Debt Writedown. Writedowns of guaranteed loans will require written approval of FSA.

C. Other Servicing Actions.

Non-monetary default. Upon occurrence of unauthorized use of loan funds, insurance lapse, security depletion, death, abandonment, conversion, etc., notice of default is mailed and 30 days are provided for the borrower to take corrective action.

60 days past due. Borrowers in Colorado may request to mediate the defaulted debt through the Colorado Department of Agriculture Farmer Creditor Mediation Program. Lenders who loan to commercial agricultural producers are required by State statute in Colorado to participate in farmer creditor mediation. If a borrower requests mediation in Colorado, the Lender will attend and participate in mediation meetings in good faith. Forced liquidation actions may be postponed for up to 60 days when mediation is pending if security is not deteriorating. Mediation is not available in the other States in which the Lender plans to make FSA guaranteed loans.

90 days past due. At 90 days past due, (earlier if non-monetary default, no prospect for repayment or the borrower is uncooperative) the borrower will be notified that loan is due in full and the Lender intends to remedy default by legal action. The account is placed on a non-accrual basis. A plan of action is prepared by the loan officer and presented to the executive loan committee. For guaranteed loans, an estimate of the amount to be lost on the loan is prepared and a claim form, supporting calculations and a current ledger is submitted to FSA.

120 days past due. The loan is referred to the Lender's legal counsel for collection action. The loan officer will attempt to take possession of chattel security if relinquished by the borrower.

Acceleration. Acceleration will be automatic at the Lender's option upon borrower violation of any loan terms and written notification to the borrower. A copy of the promissory note and other loan documents were attached as an exhibit to the original PLP application and are being retained in the FSA National Office.

Bankruptcy. The Lender will take actions to protect its interest when a borrower files bankruptcy, subject to the advice of legal counsel and the lender's current bankruptcy policy.

D. Terminations, Liquidations, and Final Loss Claims. Supporting documentation will be developed, meeting FSA regulatory requirements for any loss claim. This will include a plan of liquidation, including costs of liquidation and expected time frames. The liquidation plan will be kept in the borrower's case file.

Voluntary Liquidation. The borrower will be provided 30 days from acceleration to liquidate or agree in writing to a plan for voluntary liquidation of all loan collateral. Voluntary plans will include contingencies for failure to meet plan milestones. A release of the borrower from continued liability may be agreed to as part of a voluntary plan if written agreement is obtained from the FSA State office.

Protective advances. Moderate protective advances **not to exceed $10,000 without FSA concurrence may** ~~will~~ be made to protect the value of the collateral.

Acquisition of real estate security. The responsible loan officer or workout officer will review the collateral for possible environmental liability. If environmental problems are found the Lender's decision on acceptance of a deed in lieu of foreclosure or assessment of protective bids to be made at foreclosure will be made by the executive loan committee. For FSA guaranteed loans, FSA will be consulted regarding the method of sale or establishing foreclosure bids on any properties whose value has been substantially reduced by the presence of hazardous waste.

Judgments. Judgments will be sought in all forced liquidations, **if the assets and resources of the borrower and/or guarantors are available, or potentially available, to satisfy the cost of the action..**

Release from liability. Borrowers may be released from liability after all security is liquidated and all sources of collection of the unpaid debt are pursued in the case of a guaranteed loan. The loan officer will obtain FSA written concurrence when the borrower is to be released of liability on guaranteed loans. Releases will only be recommended by the Lender with the concurrence of the Board. **Loans made with the FSA application form 1980-28 with the revision date of July 20, 2001 are subject to Federal offset. The lender will notify the borrower when subject to offset.**